BEFORE
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

In the Matter of: Dominion Energy South Carolina, Inc.'s Request for Approval of New Natural Gas Energy Efficiency Programs	))))	Docket No. 2021-361-G

CORRECTED DIRECT TESTIMONY

OF

DAVID E. DISMUKES, PH.D.

ON BEHALF OF

SOUTH CAROLINA DEPARTMENT OF CONSUMER AFFAIRS

April 4, 2021

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I. INTRODUCTION

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is David E. Dismukes. My business address is 5800 One Perkins Place Drive, Suite 5-F, Baton Rouge, Louisiana, 70808.

Q. WOULD YOU PLEASE STATE YOUR OCCUPATION AND CURRENT PLACE OF EMPLOYMENT?

A. I am a Consulting Economist with the Acadian Consulting Group ("ACG"), a research and consulting firm that specializes in the analysis of regulatory, economic, financial, accounting, statistical, and public policy issues associated with regulated and non-regulated energy and natural resource industries. ACG is a Louisiana-registered partnership, formed in 1995, and is located in Baton Rouge, Louisiana.

Q. DO YOU HOLD ANY ACADEMIC POSITIONS?

A. Yes. I am a full Professor, Executive Director, and Director of Policy Analysis at the Center for Energy Studies, Louisiana State University ("LSU"). I am also a full Professor in the Department of Environmental Sciences and the Director of the Coastal Marine Institute in the School of the Coast and Environment at LSU. I also serve as an Adjunct Professor in the E. J. Ourso College of Business Administration (Department of Economics), and I am a member of the graduate research faculty at LSU. Lastly, I also serve as a Senior Research Fellow at the Institute of Public Utilities ("IPU") at the Michigan State University ("MSU") where I regularly teach courses on utility regulation and other energy topics. Appendix A provides my academic curriculum vitae, which includes a full listing of my publications, presentations, pre-filed expert witness testimony, expert reports, expert legislative testimony, and affidavits.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been retained by the South Carolina Department of Consumer Affairs ("DCA") to provide an expert opinion to the Public Service Commission of South Carolina ("Commission") on issues related to Dominion Energy South Carolina's ("DESC" or "Company") proposed Gas Demand Side Management ("DSM") Rider (collectively, "DSM Rider") to recover program costs arising from new natural gas DSM programs and a proposed shared savings incentive ("SSI").

Q. HAVE YOU PERSONALLY REVIEWED DESC'S APPLICATION AND FILINGS?

A Yes.

Q. HAS YOUR TESTIMONY BEEN PREPARED BY YOU OR UNDER YOUR DIRECTION AND CONTROL?

A. Yes.

Q. HAVE YOU PREPARED ANY SCHEDULES IN SUPPORT OF YOUR RECOMMENDATIONS?

A. Yes. I have provided a single schedule in support of my direct testimony that was prepared by me or under my direct supervision.

Q. CAN YOU PLEASE SUMMARIZE YOUR RECOMMENDATIONS?

A I recommend that the Commission reject the Company's proposed SSI. While the overall incentive level of $5,373 per year does not seem large, the foundation for the Company's proposed incentive is faulty and that could lead to negative, longer-run precedent setting implications for ratepayers. The Company's current SSI proposal entirely shifts its DSM performance onto ratepayers with no accountability and should be rejected.

Q. DO YOU HAVE AN ALTERNATIVE RECOMMENDATION?

A. Yes. South Carolina Code § 58-37-20 requires that the Commission ensure that utility net income is not negatively affected by the implementation of DSM and provide utilities an opportunity to earn a reasonable rate of return on investment. I believe that the proposed DSM Rider, even exclusive of the proposed SSI, provides sufficient financial incentives for a utility to pursue DSM. However, If the Commission believes that SCC §58-37-20 requires it to implement a performance incentive as part of a DSM Rider, I recommend the Commission modify the proposed mechanism to incentivize performance through the mechanism. In that case, I recommend that the Commission tie future performance incentives to the percentage of estimated energy savings included in the Company's application that are realized in future years. For example, the Company estimates that it will reduce customer use by 341,659 therms in year 3 of the proposed program.[1] If the Company reduces customer use by only 273,327 therms, or 80 percent, through its DSM initiatives, the Company will only receive 80 percent of the authorized SSI percentage. If the Company attains 100 percent or more of its estimated DSM savings, it will receive 100 percent of its SSI incentive. Actual DSM savings should be confirmed through a future Evaluation, Measurement and Verification ("EM&V") process.

[1] Petition, Exhibit B.

Q. DO YOU RECOMMEND THAT THE COMMISSION MODIFY THE ALLOWED SSI PERCENTAGE UNDER YOUR ALTERNATIVE RECOMMENDATION?

A. Yes. If the Commission authorizes an SSI, I recommend that the SSI percent be set at a level consistent with the Company's current overall allowed return of ~~8.05~~ 8.14 percent as established in Order No. ~~2018-678~~ 2021-663.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. My testimony is organized into the following sections:

- Section II: Proposed DSM Rider
- Section III: Criticisms of Company Proposal
- Section IV: Conclusions and Recommendations

II. PROPOSED DSM RIDER

Q. PLEASE SUMMARIZE THE COMPANY'S DSM PROPOSALS.

A. The Company proposes to create four new DSM programs for its residential and commercial natural gas customers that include

1) Expanding DESC's current electric Residential EnergyWise Store to include product offerings for its natural gas customers.[2]

2) Creating of a Residential High Efficiency Gas Equipment program that will provide rebates to residential natural gas customers who purchase eligible gas furnaces, gas water heaters, gas tankless water heaters, and gas direct vent fireplaces.[3]

3) Creating a Commercial High Efficiency Gas Equipment program that will provide rebates to small and medium-sized commercial businesses that invest in energy efficient natural gas equipment, such as high efficiency space and water heating equipment and high efficiency commercial cooking equipment.[4]

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[2] Direct Testimony of Sheryl K. Shelton at 10:8 to 11:8.

[3] *Id.* at 11:9-19.

[4] *Id.* at 11:20 to 12:13.

4) Expanding DESC's current Neighborhood Energy Efficiency Program ("NEEP") by providing additional support for low-income customers with energy efficiency education, in-home energy assessments, and the direct installation of low-cost energy efficiency measures.[5]

Q. HOW DOES THE COMPANY PROPOSE TO FINANCE ITS PROPOSED INITIATIVES?

A. The Company proposes to implement a DSM Rider that will allow the Company to recover all reasonable and prudent costs incurred to implement and operate its proposed DSM programs, including administrative and general ("A&G") costs and overheads.[6] In addition, the proposed DSM Rider will allow the Company to recover a SSI of 9.9 percent on its programs based on the estimated net benefits provided by the programs.[7] The proposed DSM Rider will be included on residential and commercial customers bills as per therm charges. Residential and commercial DSM Rider charges will be calculated separately to reflect programs available to the respective customer class.[8]

Q. HOW DOES THE SSI WORK?

A For the SSI, the Company proposes to calculate customers' net benefits as determined by the Total Resource Cost ("TRC") test. These estimates will then be trued up pursuant to annual third-party EM&V reports. The Company then proposes to apply a rate of 9.9 percent to this calculated customer net benefit,

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[5] *Id.* at 12:14-21.

[6] Direct Testimony of Jaton R. Smith at 5:12-14.

[7] Direct Testimony of Sheryl K. Shelton at 17:17-18.

[8] *See*, Direct Testimony of Jaton R. Smith, Exhibit No. JRS-1.

which it will include in its annual DSM Rider along with amortized costs to administer its DSM programs.[9]

Q. IS THE PROPOSED DSM RIDER SIMILAR TO THAT CURRENTLY IN PLACE TO RECOVER COSTS ASSOCIATED WITH DESC'S ELECTRIC DSM OFFERINGS?

A. Yes, with an important exception: the Company's current proposal does not include a provision to recover lost revenues associated with reduced natural gas sales that could arise from DSM program implementation, since recovery of lost revenue is already accounted for through revenue decoupling.[10]

Q. DOES THE COMMISSION CURRENTLY ALLOW FOR REVENUE DECOUPLING?

A. Yes. Since 2005, the Commission has had in place what is referred to as a Rate Stabilization Act ("RSA").[11] The RSA allows for the Company to modify rates annually to reflect changes in natural gas sales between rate case filings. Because of this, any potential reduction in natural gas usage resulting from the Company's proposed suite of DSM programs will by definition be reflected in the Company's annual RSA filings. Therefore, creating a separate recovery mechanism for DSM-related lost revenues is unnecessary.[12]

Q. HOW MUCH DOES THE COMPANY PROPOSE TO SPEND ON THE PROPOSED DSM INITIATIVES?

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[9] Direct Testimony of Sheryl K. Shelton at 17:10-18.

[10] Direct Testimony of Sheryl K. Shelton at 18:19-20.

[11] SCC §58-5-400.

[12] Direct Testimony of Jaton R. Smith at 10:14-23.

A. The Company's proposes to spend $7.2 million over five years, or $1.4 million annually, on its proposed residential and commercial DSM initiatives.[13] In addition to these costs, the Company requests an annual incentive through its SSI of $5,375.[14] The Company's proposed DSM initiatives are estimated by the Company to save 1.5 million therms over five years, or an average of 0.3 million therms annually.[15]

III. CRITICISMS OF PROPOSED DSM RIDER

Q. PLEASE EXPLAIN YOUR CONCERNS REGARDING THE COMPANY'S CURRENT DSM PROPOSALS.

A. I am concerned with the structure of the proposed DSM Rider as it relates to the proposed SSI. The Company has not provided adequate justification for why it requires such an incentive to pursue cost effective DSM, especially given the limited nature of the incentive requested. Furthermore, the incentive itself is structured in a way that shifts all performance risks onto ratepayers.

A. Proposed Shared Savings Incentive is Unnecessary to Promote DSM

Q. WHAT IS THE COMPANY'S RATIONALE FOR ITS PROPOSED 9.9 PERCENT DSM INCENTIVE?

A. The Company provides three rationales. First, the Company states that an incentive is necessary to fulfill South Carolina statutory requirements.[16] Second,

[13] Petition, Exhibit B.

[14] Direct Testimony of Sheryl K. Shelton at 18:11-15.

[15] Petition, Exhibit B.

[16] Direct Testimony of Sheryl K. Shelton at 17:3-7.

the Company states that it needs this incentive to adequately incent it to invest in cost-effective energy efficiency.[17] Third, the Company notes that the Commission has previously recognized this level of incentive as a proper incentive in its own electric DSM programs.[18]

Q. HOW DOES SOUTH CAROLINA LAW ADDRESS DSM?

A. In 1992, the South Carolina Legislature passed SCC §58-37-20 requiring the Commission to adopt procedures encouraging cost-effective energy efficiency and conservation. The statute states that the Commission shall provide incentives and cost recovery for utilities who invest in cost-effective energy that is environmentally acceptable and able to reduce energy supply consumption or demand. The legislation additionally requires that utilities be allowed to obtain a reasonable rate of return on qualified DSM investments "sufficient to make these programs at least as financially attractive as construction of new generating facilities."[19]

Q. DO DSM INVESTMENTS REQUIRE THE SAME LEVEL OF RETURN AS NEW GENERATING FACILITIES?

A. No. SCC §58-37-20 requires that utilities be provided sufficient financial support for DSM such that these investments be "as financially attractive" as the construction of new electric generation facilities. However, supply and demand side costs, and corresponding financial risks differ, suggesting that the process of making each financially attractive are not the same. Consider, as an example, that

[17] *Id.* at 17:18-20.

[18] *Id.* at 18:3-4.

[19] SCC §58-37-20.

most supply-side investments are long-lived and capitalized and can face certain cost recovery and return risks that are not present for DSM costs that are often expensed and recovered on a near contemporaneous time period.

Q. WHY ARE COSTS ASSOCIATED WITH THE IMPLEMENTATION OF DSM NOT CAPITALIZED SIMILAR TO THOSE ASSOCIATED WITH MOST SUPPLY-SIDE INVESTMENTS IN NEW GENERATION FACILITIES?

A. From a theoretical perspective, regulation is intended to operate as a proxy for forces that would typically be encountered though competition, but which are not present due to a utility's status as a natural monopoly. Capitalization is intended to reflect the reality that an asset that is anticipated to last for more than a year can be incrementally paid for over the life of the asset. Likewise, allowed earnings on rate base are intended to provide a utility a fair compensation for its carrying costs to finance this investment through its life. DSM expenses however are not linked with physical assets that last for more than a year, and thus have limited carrying costs associated with their financing.

Q. DOES THE COMPANY REQUIRE AN ADDITIONAL INCENTIVE TO PROMOTE DSM?

A. No. If anything, recovering DSM expenses through a tracker itself, much like the one proposed by the Company, already provides an incentive to promote DSM because it allows for near contemporaneous cost recovery, something that would not arise if these DSM costs were recovered through traditional base rates which are less frequently updated. Thus a cost recovery mechanism, even without an incentive, makes these investments at least as financial attractive as similarly-situated supply-side resources.

B. Proposed Shared Savings Incentive is Problematically Structured

Q. HOW DOES THE COMPANY PROPOSE THAT ITS SHARED SAVINGS INCENTIVE WILL BE APPLIED?

A. The Company proposes that a 9.9 percent rate be applied to all customers' net benefits from the proposed natural gas DSM programs based on the results of the TRC test of cost effectiveness.[20] This incentive will be recovered all at once for each implementation year, which is different from how these incentives are recovered for the Company's electric jurisdiction where they are amortized in a rolling three-year basis.[21]

Q. DO YOU HAVE ANY CONCERNS WITH THE COMPANY'S PROPOSAL TO BASE ITS PROPOSED SSI ON THE ESTIMATED NET BENEFITS OF THE PROPOSED DSM PROGRAMS?

A. Yes. The structure of the SSI does not follow how benefits of energy efficiency programs actually accrue to ratepayers. At its core, energy efficiency programs generally consist of up-front expenses, such as the installation of a new high-efficient hot water heater, that then provides incremental benefits in terms of reduced energy usage over the useful life of the installed equipment. To accurately compare the benefits and the costs of a program that occur in different time

[20] Direct Testimony of Sheryl K. Shelton at 17:10-18.

[21] Direct Testimony of Jaton R. Smith at 6:9-12.

periods, both benefits and costs are discounted to current values to evaluate in terms of a net present value.

Q. HOW DOES THE DISCOUNTED STRUCTURE OF DSM COST EFFECTIVENESS TESTS IMPACT THE COMPANY'S PROPOSED SSI?

A. The Company proposes to retain a percentage of all net benefits that are calculated through these cost effectiveness tests. However, the benefits included in this net benefit calculation actually occur over a period of years and even decades, depending on the estimated life of the equipment being installed. Yet the Company's proposed process would allow it to retain a percent of these to-be-realized benefits instantaneously after the installation of the energy efficient equipment, without regards to actual performance.

Q. ARE THERE OTHER CONCERNS WITH THE COMPANY'S PROPOSED STRUCTURE OF THE SSI?

A. Yes. The Commission should realize that, by its nature, cost effectiveness tests require assumptions to calculate, such as estimated useful lives, estimated energy savings, and potentially estimated environmental costs. While such estimates are adequate for purposes of evaluating the wisdom of implementing a program, the Company's proposal directly ties monetary recovery to the results of these assumptions. Such an approach can only result in arbitrary incentive amounts.

Q. ARE THERE ANY OTHER PROBLEMS?

A. Yes. The SSI is based upon estimates of DSM savings and not actual observed savings. The Company's proposal will shift all performance risks of its DSM programs onto ratepayers since it will be guaranteed an incentive, regardless of the actual savings that arise from the program.

C. Commission Should Consider Incentives Tied to Performance

Q. HAS THE COMPANY PREVIOUSLY DEPLOYED DSM PROGRAMS?

A. Yes. The Company's predecessor, South Carolina Electric & Gas Company ("SCE&G"), maintained a set of DSM programs dating back to at least 2009.[22] During this time, SCE&G conducted a DSM potential analysis and submitted a proposal for eleven separate DSM programs, including nine that targeted residential customers with one of these nine directed towards low-income customers.[23] SCE&G, as part of a 2009 settlement agreement, agreed to establish a procedure for future EM&V studies, as well as allowing for certain large customers to opt out of any utility offered DSM programs and the associated DSM charges required to fund these programs.[24]

Q. DID THE SCE&G 2009 ELECTRIC DSM FILING INCLUDE A PROPOSAL FOR COST RECOVERY?

A. Yes. The SCE&G 2009 DSM filing included a proposed DSM Rider that would allow SCE&G to recover costs required to administer the proposed DSM offerings, as well as recovery of any lost revenues associated with the programs and a

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[22] *See*, In Re: Application of South Carolina Electric & Gas Company for the Establishment and Approval of DSM Programs and Rate Rider, Docket No. 2009-261-E, Order No. 2010-472.

[23] *Id.* at 5-6.

[24] *Id.* at 2 and 15.

proposed shared savings incentive equal to six percent of the estimated net benefits of each energy efficiency program using the Utility Cost Test ("UCT").[25]

Q. HAVE THESE 2009 ELECTRIC DSM PROGRAMS CHANGED OVER TIME?

A. Yes. The Company's electric DSM programs and DSM Rider have been modified twice since its original 2009 implementation, once in 2013 and then again in 2019. The Company's 2013 filing effectively continued its existing suite of DSM programs with few changes, including no changes to its current DSM Rider.[26] In the 2019 filing, the Company compressed its DSM programs from eleven to ten but also doubled total proposed DSM spending.[27] The Company also proposed to increase the existing shared savings incentive equal to six percent of estimated net benefits using the UTC to 11.5 percent of estimated net benefits using the TRC test.[28] Office of Regulatory Staff ("ORS") opposed the proposed increase to 11.5 percent, instead proposing an increase to 9.9 percent which was adopted by the Commission.[29]

Q. DID THE COMPANY EXPLAIN WHY IT PROPOSED TO INCREASE THE SSI IN ITS 2019 ELECTRIC DSM FILING?

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[25] *Id.* at 13.

[26] In Re: Application of South Carolina Electric & Gas Company for Approval to Continue Demand-Side Management Programs and Included Rate Rider, and for Approval of Revised Portfolio of Energy Efficiency Programs, Docket No. 2013-208-E, Order No. 2013-826.

[27] In Re: Dominion Energy South Carolina, Inc's Request for Approval of an Expanded Portfolio of Demand Side Management Programs, and a Modified Demand Side Management Rate Rider, Docket No. 2019-239-E, Order No. 2019-880, at 11 and 25.

[28] *Id.* at 36.

[29] *Id.* at 37-38.

A. The Company claimed that it sought to increase the percentage associated with its SSI to reflect the proposed expansion of its DSM initiatives and to be consistent with SSI earned by other utilities.[30]

Q. DID INTERVENORS IN 2019-239-E RAISE CONCERNS REGARDING THE COMPANY'S ELECTRIC DSM OFFERINGS?

A. Yes. The Joint Interveners in 2019-239-E raised concerns regarding the Company's estimated energy savings that would arise from the proposed DSM programs. The Company's DSM initiatives had historically delivered annual incremental savings of 0.3 percent of total annual sales prior to 2019, and even the Company's 2019 proposal was estimated to only achieve annual incremental savings of 0.7 percent per year.[31] The Joint Interveners argued that the Company should at least be delivering energy savings levels of over one percent per year based on a review of that achieved by other utilities in the recent past.[32] The Joint Interveners were especially concerned with the Company's proposed SSI, feeling that it should be constructed as a sliding scale that rewarded the utility for high performance in terms of achieved annual energy savings, rather than simply meeting a minimum threshold.[33]

Q. DO OTHER STATE JURISDICTIONS PROVIDE INCENTIVES TO UTILITIES FOR INVESTING IN DSM INITIATIVES?

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[30] *Id.* at 36-37.

[31] In Re: Dominion Energy South Carolina, Inc's Request for Approval of an Expanded Portfolio of Demand Side Management Programs, and a Modified Demand Side Management Rate Rider, Docket No. 2019-239-E, Direct Testimony of Elizabeth Chant at 6:18 to 7:1.

[32] *Id.* at 14:4-9.

[33] *Id.* at 29:4-9.

A. Yes. Exhibit DED-1 presents a survey of jurisdictional energy efficiency incentives implemented in all 50 States and the District of Columbia that was conducted by the National Conference of State Legislatures ("NCSL") in 2019. Of the 31 jurisdictions that are listed by the NCSL as having authorized incentives associated with the DSM initiatives, 12 are listed as allowing shared net benefits similar to the Company's proposal.

Q. ARE MOST OTHER SHARED NET BENEFITS INCENTIVES APPROVED IN OTHER JURISDICTIONS THROUGHOUT THE COUNTRY TIED TO THE ACHIEVEMENT OF SET ENERGY REDUCTION GOALS?

A. Yes. For example, the State of Ohio allows for the utility to earn between 5 and 8.5 percent of net benefits associated with a DSM program if the utility achieves at least 75 percent of stated target savings.[34] Other states such as Michigan and Minnesota have escalating incentives wherein the utility receives larger incentives for achieving larger percentage reductions in annual energy use. For example, Michigan allows for a utility to earn between 15 and 20 percent of spending on DSM if the utility achieves annual energy savings in excess of 1.5 percent of estimated annual sales.[35]

Q. WOULD LINKING ALLOWED SSI RECOVERY TO ENERGY SAVINGS PERFORMANCE PRODUCE BENEFITS?

[34] In the Matter of the Application of Columbia Gas of Ohio, Inc., for Approval of Demand-Side Management Programs for its Residential and Commercial Customers, Case No. 11-5028-GA-UNC, Finding and Order at ¶7.

[35] Michigan Public Acts of 2016, Act No. 341 §6x.

A. Yes. Linking allowed SSI recovery to achieved energy savings would re-link the achievement of performance to the established performance incentive. Ratepayers only see benefits from established DSM initiatives through the reduced use of utility services which reduces pressures on need for future supply-side resources. Without linking allowed SSI to the achievement of the actual savings, all future performance risk is shifted from the utility onto ratepayers who ultimately finance DSM initiatives.

D. Proposed SSI is Inconsistent with Prior Commission Orders

Q. PLEASE DISCUSS THE COMPANY'S PROPOSED SSI PERCENTAGE.

A. The Company states that it selected 9.9 percent as an appropriate incentive for its proposed natural gas DSM programs since this rate "sufficiently incentiviz[es] the Company to explore the addition of [] gas DSM programs and seek approval from the Commission to implement these programs."[36] Furthermore, the Company states that the proposed SSI rate maintains consistency between its business units as this is the rate that has been approved by the Commission for use with the Company's suite of electric DSM programs.[37]

Q. DO YOU AGREE WITH THE COMPANY'S ARGUMENT?

A. No. The Commission should recognize that the Company's electric and natural gas business units are separate entities with separate operating conditions and importantly separate operating risks. Therefore, the allowed incentive provided for

[36] Direct Testimony of Sheryl K. Shelton at 18:5-7.

[37] *Id,* at 18:8-10.

the Company's electric DSM offerings should be viewed separately from the allowed incentive for the Company's natural gas DSM offerings.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S PROPOSED SSI?

A. SCC § 58-37-20 requires that the Commission ensure that utility net income is not negatively affected by the implementation of DSM and provide utilities an opportunity to earn a reasonable rate of return on investment. As noted earlier, I believe that the proposed DSM Rider, even exclusive of the proposed SSI, provides sufficient financial incentives for a utility to pursue DSM. This is especially true when considering the RSA renders the utility harmless from any reduced natural gas use which may arise from the proposed DSM initiatives. However, if the Commission decides an SSI is required pursuant to SCC § 58-37-20, the language of the statute appears to indicate that no incentive should be greater than the Company's current ROR approved by the Commission. This is the rate the Commission has previously determined as a prudent level of return for all other Company investments.

Q. WHAT IS THE COMPANY'S CURRENT ALLOWED RATE OF RETURN?

A. The Commission authorized an allowed overall ROR of ~~8.05~~ 8.14 percent in Docket No. ~~2018~~ 2021-6-G.

IV. CONCLUSIONS AND RECOMMENDATIONS

Q. WHAT ARE YOUR RECOMMENDATIONS AND CONCLUSIONS?

A I recommend that the Commission reject the Company's proposed SSI. While the overall incentive level of $5,373 per year does not seem large, the foundation for the Company's proposed incentive is faulty and that could lead to negative, longer-run precedent setting implications for ratepayers. The Company's current SSI proposal entirely shifts its DSM performance onto ratepayers with no accountability and should be rejected.

Q. DO YOU HAVE AN ALTERNATIVE RECOMMENDATION?

A. Yes. SCC § 58-37-20 requires that the Commission ensure that utility net income is not negatively affected by the implementation of DSM and provide utilities an opportunity to earn a reasonable rate of return on investment. I believe that the proposed DSM Rider, even exclusive of the proposed SSI, provides sufficient financial incentives for a utility to pursue DSM. However, If the Commission believes that SCC §58-37-20 requires it to implement a performance incentive as part of a DSM Rider, I recommend the Commission modify the proposed mechanism to incentivize performance through the mechanism. In that case, I recommend that the Commission tie future performance incentives to the percentage of estimated energy savings included in the Company's application that are realized in future years. For example, the Company estimates that it will reduce customer use by 341,659 therms in year 3 of the proposed program.[38] If the Company reduces customer use by only 273,327 therms, or 80 percent, through its DSM initiatives, the Company will only receive 80 percent of the authorized SSI percentage. If the Company attains 100 percent or more of its estimated DSM savings, it will receive 100 percent of its SSI incentive. Actual DSM savings should be confirmed through a future EM&V process.

[38] Petition, Exhibit B.

Q. DO YOU RECOMMEND THAT THE COMMISSION MODIFY THE ALLOWED SSI PERCENTAGE UNDER YOUR ALTERNATIVE RECOMMENDATION?

A. Yes. If the Commission authorizes an SSI, I recommend that the SSI percent be set at a level consistent with the Company's current overall allowed return of ~~8.05~~ 8.14 percent as established in Order No. ~~2018-678~~ 2021-663.

Q. DOES THIS CONCLUDE YOUR TESTIMONY FILED ON APRIL 4, 2022?

A. Yes.